

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

EL SALVADOR

FINANCING PROGRAM FOR ENERGY EFFICIENCY AND RENEWABLE ENERGIES IN SALVADORAN MSMEs

(ES-L1162)

LOAN PROPOSAL

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ABBREVIATIONS

BANDESAL	Banco de Desarrollo de la República de El Salvador (Development Bank of the Republic of El Salvador)
BCR	Banco Central de Reserva (Central Reserve Bank)
DNEHM	National Directorate of Hydrocarbon Energy and Mines
EIB	European Investment Bank
ESMS	Environmental and social management system
ESRS	Environmental and Social Review Summary
FSV	Fondo Social para la Vivienda (Low-income Housing Fund)
GDP	Gross domestic product
IFIs	Intermediary financial institutions
IMF	International Monetary Fund
MARN	Ministry of Environment and Natural Resources
MSMEs	Micro, small, and medium-sized enterprises
PCR	Project completion report
SOFR	Secured Overnight Financing Rate
SSF	Financial System Superintendency
WEO	World Economic Outlook

PROGRAM SUMMARY
EL SALVADOR
FINANCING PROGRAM FOR ENERGY EFFICIENCY AND RENEWABLE ENERGIES IN SALVADORAN MSMES
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Financial Terms and Conditions								
Borrower:			Flexible Financing Facility^(a)					
Development Bank of the Republic of El Salvador (BANDESAL)								
Guarantor:			Amortization period:	23.5 years				
Republic of El Salvador			Disbursement period:	6 years				
Executing agency:			Grace period:	7 years ^(b)				
BANDESAL			Interest rate:	SOFR-based				
Source		Amount (US\$)	%	Credit fee:		^(c)		
IDB (Ordinary Capital):^(f)		60 million	75	Inspection and supervision fee:		^(c)		
Local counterpart:^(g)		20 million	25	Weighted average life:		15.25 years		
Total:		80 million	100	Approval currency:		United States dollar		
Program at a Glance								
Program objective/description: The program's general development objective is to contribute to energy savings and to reducing greenhouse gas emissions in Salvadoran micro, small, and medium-sized enterprises (MSMEs). Its specific development objective is to provide medium- and long-term financing to support MSMEs in making investments that lead to energy savings and emissions reductions.								
Special contractual condition precedent to the first disbursement of the loan: approval of the Credit Regulations (optional link 4) by BANDESAL in the terms agreed upon in advance with the Bank, which will include socioenvironmental considerations (required link 3) (paragraph 3.7)								
Exception to Bank policies: The Board of Executive Directors is asked to approve a partial exception to the Bank's Policy on Guarantees Required from the Borrower (OP-303) to allow the Republic of El Salvador to guarantee only the financial obligations stemming from the loan contract between the Bank and BANDESAL (paragraph 3.8).								
Strategic Alignment								
Objectives:^(d)	O1 <input type="checkbox"/>		O2 <input checked="" type="checkbox"/>			O3 <input checked="" type="checkbox"/>		
Operational focus areas:^(e)	EO1 <input type="checkbox"/>	EO2-G <input checked="" type="checkbox"/>	EO3 <input checked="" type="checkbox"/>	EO4 <input type="checkbox"/>	EO5 <input checked="" type="checkbox"/>	EO6 <input checked="" type="checkbox"/>	EO7 <input type="checkbox"/>	
		EO2-D <input type="checkbox"/>						

(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

(d) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

(e) EO1 (Biodiversity, natural capital, and climate action); EO2-G (Gender equality); EO2-D (Inclusion of diverse population groups); EO3 (Institutional capacity, rule of law, and citizen security); EO4 (Social protection and human capital development); EO5 (Productive development and innovation through the private sector); EO6 (Sustainable, resilient, and inclusive infrastructure); EO7 (Regional integration).

(f) Pursuant to document AB-2990, loan disbursements are subject to the following ceilings: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, all of which will be counted from the date the loan is approved by the Bank's Board of Executive Directors (paragraph 2.3).

(g) The local counterpart may come from the European Investment Bank (EIB), whose financing has been approved, or from another financing agency. The Bank does not administer these resources.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Macroeconomic context.** El Salvador is a middle-high income country with modest historical growth: between 2010 and 2022, growth averaged 2.4%, although in recent years it has improved slightly. The tertiary sector predominates in its economy, which accounts for approximately 60.2% of value added, and depends heavily on remittances from abroad, amounting to about 24% of GDP. Despite this recent growth, which amounted to 3.5% in 2023,¹ it remains below the average for Central America, the Dominican Republic, and Panama, which had growth of 4.2%² that same year. The country's relatively low levels of investment and productivity continue to limit economic growth. Between 2012 and 2023, total public and private investment averaged 18% of GDP, but continued to be lower than the 20% average for Latin America and the Caribbean.³ For 2024, the International Monetary Fund (IMF) is projecting growth of 3%, a figure similar to that expected for 2025, while the authorities estimate this growth to range from 3% to 3.5%. The IMF also expects inflation to close 2024 at 2%.
- 1.2 **Context of the energy efficiency and renewable energy sector.** Energy efficiency and the promotion of renewable energy is a priority for El Salvador, with public interventions such as the El Salvador Ahorra Energía⁴ (El Salvador Saves Energy) program which promotes efficient and rational use in different sectors, including the public sector, commerce, industry, services, and households. That program has helped to take the first steps in creating savings for households and businesses, although major challenges exist, especially for enterprises. According to the World Bank's Enterprise Survey 2023, businesses report that access to financing and the cost of and access to electricity are some of the main limitations on doing business.⁵ The same report indicates that these factors restrict the competitiveness of the entrepreneurial sector in El Salvador and help drive up the cost of productive factors by 24%. The survey also mentions that this combination affects micro, small, and medium-sized enterprises (MSMEs) to a greater extent.⁶ Although investment opportunities exist in energy efficiency and renewable energy for a variety of Salvadoran entrepreneurial establishments in the commercial, services, and manufacturing sectors (77% of GDP), smaller companies present special potential, given their crucial role for the country's economic growth in the areas of job creation and income. The relevance of the MSME sector in the country is significant. They are a cornerstone of the economy, numbering nearly 500,000 enterprises, which contribute 43% of GDP and account for 66% of all jobs.⁷ Energy costs are estimated to account for between 15% and 20% of the total cost of operating an MSME in El Salvador. Energy savings obtained from

¹ Central Reserve Bank (BCR), 2024.

² IMF, October 2024 World Economic Outlook (WEO).

³ IMF, October 2024 WEO.

⁴ See [link](#).

⁵ It also mentions logistics and formalities as other limitations, but to a lesser extent.

⁶ Under local legislation, a microenterprise employs up to 10 people and has sales of up to US\$175,930; a small enterprise has up to 50 employees and sales of up to US\$1,758,205; and a medium-sized enterprise has up to 100 employees and sales of up to US\$7 million.

⁷ Data to 2023 (BCR).

implementing energy efficiency measures and renewable energy applications would help to reduce the use of fossil fuels in the country and improve the operating efficiency and sustainability of MSMEs. According to data of the Instituto para la Diversificación y Ahorro de la Energía (Institute for Energy Diversification and Savings), companies can save up to 35% of their energy costs through energy efficiency and renewable energy.

- 1.3 **Vulnerability to climate change.** El Salvador is highly vulnerable to the adverse impacts of climate change, with 88.7% of the country classified as a risk zone.⁸ Average temperatures will increase between 1°C and 4.5°C in the periods 2021-2050 and 2071-2100 under every scenario used for calculation,⁹ and the frequency and intensity of extreme events such as heat waves, droughts, and storms will also increase. This context is one of the main development challenges and points to the need to adapt and transition toward a decarbonized and resilient economy in the face of the different climate change impacts. The country has seen an increase of 15% in greenhouse gas emissions in recent years, which rose from 1.04 tons of carbon dioxide (CO₂) per capita in 2017 to 1.22 tons in 2022.¹⁰ If this figure is compared to Central American levels, El Salvador is the second highest generator per capita of greenhouse gas emissions, after Costa Rica¹¹. Activities that generate the most greenhouse gases in El Salvador include electric power generation which, according to the Economic Commission for Latin America and the Caribbean (ECLAC), generated 1.57 million tons of CO₂ in 2017.¹² This situation calls for the development of interventions that promote energy efficiency and renewable energy projects which, in addition to reducing fossil fuel consumption, also help to reduce greenhouse gases in the country.
- 1.4 **Institutional and strategic context.** Under the National Energy Policy 2020-2050,¹³ the Salvadoran government confirmed that energy drives development and economy recovery, and is a priority to be added to the energy transition (paragraphs 1.6 and 1.7). The policy establishes guidelines for promoting energy savings at the entrepreneurial level as a mechanism for reducing energy costs for businesses, thereby raising their levels of productivity and competitiveness. However, limited participation by private intermediary financial institutions (IFIs) in energy financing, particularly for MSMEs, stands in the way of investments in projects of this kind (paragraphs 1.8 and 1.9). Prior to the operation Energy Efficiency Financing for Small and Medium-sized Enterprises ([4567/GN-ES](#)) for US\$200 million, which has been 97.5% disbursed to date, just three IFIs had green financial products for MSMEs (paragraphs 1.7 and 1.10).
- 1.5 **Restrictions on access to and gaps in financing.** Salvadoran MSMEs encounter difficulties in accessing more modern technologies and migrating to more productive business models, largely because of their low levels of investment which are a consequence of their limited access to finance, specifically for projects

⁸ [Ministry of Environment and Natural Resources \(MARN\) 2018](#).

⁹ [MARN \(2018\)](#).

¹⁰ Data from [Inventario Nacional de GEI. El Salvador \(2000\)](#) (National Greenhouse Gas Inventory).

¹¹ See [link](#).

¹² See [link](#).

¹³ [Política Energética. El Salvador \(2020-2025\)](#) (El Salvador Energy Policy, 2020-2025).

of this type.¹⁴ This is mainly due to the lack of financing sources for technologies of this kind, whose amortization periods should be longer so that the savings can maximize the investment. Private IFIs are averse to financing investments in energy efficiency and renewable energy technologies because they cannot fully predict cash flows (based on the savings to be made) and because of the lack of collateral to allow for acceptable loan-loss provisioning. At year-end 2023, loans to MSMEs from IFIs amounted to almost 28% (US\$3.263 million) of total credit issued by the financial system, with 14% going to medium-sized enterprises, 5% to small businesses, and 9% to microenterprises. Importantly, IFIs issued 256,611 loans to MSMEs, amounting to just 10% of the total 2,431,711 loans issued. Of all loans issued with terms of for more than two years (1,922,033), just 4.1% (78,433) went to MSMEs.¹⁵ The financing gap for MSMEs in El Salvador is an estimated US\$10 billion, and just 29% have lines of credit. Of those lines, only between 11% and 14% of them are for medium or long terms.¹⁶ Accordingly, public policy actions are needed to finance this segment and help close these gaps ([optional link 6](#)).

- 1.6 **Public efforts and the mobilizing role of public banks to combat climate change.** El Salvador has started transitioning its economy to decarbonization and productive sustainability. Its Nationally Determined Contribution establishes two mitigation targets in this regard, with the first in the energy sector, where the country has undertaken annual greenhouse gas emissions reductions of between 819 kilotons and 640 kilotons of CO₂ by 2030, based on increased use of renewable energy to generate electric power, energy efficiency, substitution of fossil fuels, and electromobility. In turn, the overall objective of the National Climate Change Plan 2022-2026 is building resilience and transitioning to economic decarbonization through the diversification of energy sources and adaptation and mitigation measures. Accordingly, the country has been making efforts to diversify the energy matrix through the National Energy Policy 2020-2050, to sustainably meet the demand for energy, promoting legal initiatives toward the energy transition through investments in energy reconversion. In this context, Banco de Desarrollo de la República de El Salvador (BANDESAL), the country's main public bank, has reaffirmed its commitment as financier of the transition and supplier of technical support for the productive sector, specifically for MSMEs. As part of this commitment, in 2024 the institution renewed its interagency agreement with the National Directorate of Hydrocarbon Energy and Mines (DNEHM) which establishes BANDESAL as the focal point for technical support in training for sustainable investments, support in developing measurement tools for projects, and coordination of national development banks to promote sustainable incentives.
- 1.7 BANDESAL's experience with operation [4567/GN-ES](#) plays a strategic role in the energy transition policy, encouraging and supporting IFIs to accelerate their participation in the country's green financing market and complementing their activities. This role goes beyond providing medium-and long-term financing, and extends to technical support for the development of financial products (loans and guarantees), leveraging resources from international financial institutions. The most salient interventions include support from the IDB for BANDESAL, which in 2018

¹⁴ Doing Business in a More Transparent World. World Bank and the International Finance Corporation, Economic Profile for El Salvador (2016).

¹⁵ Data from the Financial System Superintendency.

¹⁶ December 2023 data of the Financial System Superintendency of El Salvador.

approved an operation on financing energy efficiency in MSMEs ([4567/GN-ES](#)) for US\$20 million from the Green Climate Fund with a counterpart contribution from BANDESAL of US\$20 million and mobilization of an additional US\$20 million from the local private sector. This is the first second-tier intervention for projects of this kind in the country. The operation initially focused on financing a list of efficient technologies to test the market and the appetite of MSMEs for obtaining financing of this kind. Execution of the operation will conclude at the end of 2024. As of June, it had lent a total of US\$37,916,219 and leveraged an additional US\$12,623,485 from local IFIs in loans for different sectors, for a total of 250 operations that have generated energy savings of 66.44 GWh and a reduction in greenhouse gases of 44,621.45 tons of CO₂. The operation has also enabled the beneficiary MSMEs to reduce their energy costs by 17% and this reduction is expected to increase in the coming years. Apart from financing, BANDESAL benefitted from technical-cooperation operation [ATN/GN-17930-ES](#), whose support included: (i) preparation of a bill on energy transition; (ii) training for IFIs and technology suppliers (creating supplier certification to assure the quality of the equipment financed); (iii) development of new financial products; (iv) strengthening of BANDESAL to develop projects of this kind; and (v) creation of a tool to measure energy savings and greenhouse gas reductions.

- 1.8 With technical support from the Bank through operation [ATN/GN-17930-ES](#), BANDESAL has developed a tool that is being used by local IFIs to measure energy savings and greenhouse gases, which will enable them to establish a baseline for use in analyzing loans and projecting savings. The tool projects savings which are monitored month by month so that steps can be taken (e.g., expanded generating capacity or backup battery power) to approximate the savings projected in the baseline. The tool has raised the confidence of local IFIs in estimating a realistic cash flow that enables them to make better investment decisions. In this way, the Bank's technical and financial support has enabled BANDESAL to motivate the Salvadoran financial sector (technically and financially) to participate in the market for financing energy efficiency and renewable energy for MSMEs, sharing the risk of operating in a new market.
- 1.9 Although operation [4567/GN-ES](#) has begun to develop a market for financing efficiency and renewable energy in the country, that market needs to be consolidated with medium- and long-term financing, and technical knowhow for establishing enabling conditions for the private sector to participate in this financing market.
- 1.10 **MSME demand for long-term financing for investments in energy efficiency and renewable energy projects.** As part of the experience gained in executing operation [4567/GN-ES](#), projected demand or a pipeline of energy efficiency and renewable energy projects of more than US\$150 million has been structured over a three-year execution period, but just 27% has been financed with that line.¹⁷ Specifically, new technologies have been financed in these areas through the intermediation of 16 Salvadoran IFIs, which for the first time have issued loans that reflect the operation's characteristics. Demand for financing by amount has mainly targeted the energy sector and the manufacturing industry, which received 75% of

¹⁷ Distribution of this unmet demand by types of enterprise is as follows: (i) 19% in microenterprises (with an average financing amount of up to US\$50,000); (ii) 33% in small enterprises (financing amount of up to US\$200,000); and (iii) 36% in medium-sized enterprises (financing amount of up to US\$650,000).

the financing, 80% of which has been used for renewable energy projects. As for the number of operations, the services sector is the main client, with more than 65% of the loans placed (mainly hotels and restaurants). A demand analysis ([optional link 6](#)) was performed as part of the design of the proposed operation, in conjunction with IDB Invest and IDB Lab, to achieve greater depth in the information obtained (paragraph 1.17). In that study and for the inclusion of new technologies, a conservative scenario estimated financing requirements for the next five years of about US\$190 million, which points to an opportunity to offer viable options for emissions reduction and energy savings.¹⁸ The information added to the pipeline generated under operation [4567/GN-ES](#) indicates that demand for financing is approximately US\$300 million. Of this total, solar photovoltaic technology (SPT) is in highest demand (65%), followed by motors (20%), and cooling systems (12%), approximately.

- 1.11 **Gender gaps in access to financing.** Women-led MSMEs face financing gaps on both the supply and demand sides. Although no data are available on women-led MSMEs and their access to financing in El Salvador, estimates¹⁹ suggest that enterprises with majority female ownership account for just 23.8%, compared for 76.2% for men. As for the sector concentration of businesses belonging to women, 58% of microenterprises are in the commerce sector and 33% in the services sector,²⁰ which are generally less investment intensive and have less exposure to energy efficiency investments. Although no country-wide information is available that indicates the extent to which women entrepreneurs apply for financing for energy efficiency projects, referential information from BANDESAL suggests that less than 20% of loans under a line of credit dedicated to energy efficiency were applied for by women. Nationally, the Financial Inclusion Law²¹ and the Law in respect of Equality, Equity, and Eradication of Discrimination against Women²² frame BANDESAL's commitment to the financial inclusion of women. BANDESAL has made progress in a gender agenda focused on gradually gaining an understanding of women's financing needs and adapting its products accordingly. BANDESAL's institutional policy on gender equity²³ was amended to include the institution's extension work and, for example, to adopt best practices in defining women's enterprises²⁴ in its programs. BANDESAL has also established configurations to adjust its second-tier programs²⁵ thereby spurring demand by IFIs for loans for women entrepreneurs. Lastly, given the catalytic role played by BANDESAL with the IFIs, training has been offered in gender and financial

¹⁸ The information compiled corresponds to the demand analysis ([optional link 6](#)) performed as part of the proposed program, which incorporated data on projects that have been designed and begun but were financed under the previous program.

¹⁹ World Bank Group. [Enterprise Survey – El Salvador, 2023](#).

²⁰ National Micro and Small Enterprise Commission, 2017. [National Survey of Micro and Small Enterprises](#).

²¹ [Law to Facilitate Financial Inclusion in El Salvador](#).

²² [Law in respect of Equality, Equity, and Eradication of Discrimination against Women](#).

²³ [BANDESAL Institutional Policy on Gender Equality](#).

²⁴ A technical assistance project funded by the IDB ([ATN/OC-17811-RG](#)) advised BANDESAL on best practices in defining businesses owned by women and made recommendations to adjust its internal systems and policies to compile information on the second-tier level.

²⁵ Under operation [ATN/OC-17811-RG](#), consulting services were contracted to review BANDESAL's second-tier programs focused on women and make recommendations for more effective deployment.

inclusion, to scale up institutional understanding and mitigation of barriers such as gender biases (paragraph 1.26).

1.12 **Rationale, market failure, and program strategy.** Operation ES-L1132 ([4567/GN-ES](#)) has laid the groundwork for creating a new energy financing market for MSMEs, demonstrating the relevance of the sector and generating demand that has exceeded expectations. The new operation was designed based on the results of the previous one, seeking to continue public efforts to encourage private sector participation through medium-term financing and the measurement tools developed by BANDESAL. Current demand, which has only been partly covered owing to limitations on the availability of financial resources and technical support, requires medium- and long-term financing, which continues to be scarce in the country.²⁶ The Salvadoran market does not yet offer financial solutions that combine long-term resources with technical support that continues to deepen the green financing market. To address this market failure, a mix of tools is required to prioritize and make investment decisions that generate savings in the medium and long terms ([optional link 3](#)). The proposed operation incorporates three complementary elements for consolidating this financing market, in line with the theory of change: (i) The Bank will provide medium- and long-term funds to leverage resources from other financial institutions and the private sector, which will help to improve the supply of financing for MSMEs that apply for credit from IFIs. This will enable BANDESAL to continue having an impact beyond the life of the program (paragraph 2.8). (ii) The operation leverages the knowledge generated in the previous operation with respect to measuring savings. The previous operation developed pragmatic measurement methods, based on international standards (such as ISO-50001) which concretely and transparently demonstrate the capacity of the equipment to be procured to generate energy savings. This measurement mechanism, apart from verifiably estimating savings (based on the experience of the previous operation), serves as an element that reduces the misgivings of entrepreneurs to invest in new technologies. (iii) Partnerships and coordination with IFI's and equipment suppliers are relevant in terms of narrowing the gap that the program seeks to address. The ability to measure savings could encourage more IFIs to join the program, since they can mitigate the credit risk for the subloans. The present program can also tap the advantages of the work done under the previous operation with first-tier IFIs, since it already has products designed and executives trained to promote and place these lines. The IFIs could expand their lending capacity expeditiously compared to the first operation, accelerating the results and impact. Moreover, the work of equipment suppliers is crucial, since they know firsthand what the businesses need and can influence their investment decisions. These three elements combined are the keys for consolidating the energy efficiency and renewable energy market in El Salvador and for establishing a working methodology that can be replicated by other private financial institutions.

1.13 **Experience in the sector and lessons learned.** The Bank has supported access to financing by MSMEs in El Salvador through five operations, particularly: (i) the

²⁶ A key factor that has limited the availability of medium- and long-term credit for investments in energy efficiency and renewable energy technologies is related to the Salvadoran financial system, whose structure is concentrated in short-term deposits that present a maturity mismatch with medium- and long-term loans. According to data from the SSF, at year-end 2023 just 7.3% of deposits had terms longer than one year.

First Program of Access to Lending for the Recovery of MSMEs ([5083/OC-ES](#)), which has fully disbursed the US\$200 million that was allocated and has financed more than 6,000 businesses affected by COVID-19, increasing sales by 25% and saving 7,000 jobs; and (ii) Global Credit Loan for Financing Energy Efficiency in MSMEs ([4567/GN-ES](#)). As for relevant experience in financing energy efficiency and renewable energy in the region,²⁷ the following operations stand out: (i) [4565/GN-AR](#), through which the Bank enabled more than 300 MSMEs to finance investments in the agricultural and metallurgical sectors; and (ii) [5169/TC-CO](#), which is the first operation to introduce payment guarantees, benefitting more than 3,000 companies and generating significant energy savings.

- 1.14 Based on the experience and lessons learned in the execution of operation [4567/GN-ES](#) and the catalytic effect generated, it was found that: (i) private IFIs on their own and without medium- and long-term financing and/or programs to promote the financing market for energy efficiency and renewable energy have no appetite to finance MSME projects costing less than US\$1 million, because they perceive a twofold risk: (a) the credit profile of the sector; and (b) mistrust that repayment flows will be generated from the savings brought about by the technologies; (ii) it is important to understand client needs and identify barriers to their access to financing, considering local financing conditions (short-term financing structure). The theme of the proposed operation is unique and differs from previous operations, but nonetheless the experience gained from operation [4567/GN-ES](#) that could impact this new operation has been taken into account. With this in mind, a demand study was conducted ([optional link 6](#)), to learn in detail about the types of loans (rates, terms, use of funds) required which, coupled with BANDESAL's experience in this market, defines a financing gap that will be partially addressed; and (iii) technical support is needed to enable the end beneficiaries to estimate the desired savings, in line with the timing of the investment. Technical support is also necessary to enable the IFIs to design financial products tailored to existing demand. Support is also needed to develop methods of credit analysis for investments in technologies of this kind. This support should be geared to understanding the types of technology and their financial requirements (longer payback than an investment in traditional fixed assets) and a method for measuring savings that will enable end clients to honor their financial obligations. A technical cooperation project is being processed that will specifically support these points, with the goal of generating installed capacity (in BANDESAL to continue supporting IFIs beyond the life of the program; and (iv) for good promotion of the subject and efficient management of resources, multisector coordination is required (executing agency, ministries, private sector, and suppliers) (paragraph 3.2).
- 1.15 **Bank additionality to reduce financial gaps and generate impact in El Salvador.** Since 2015 ([optional link 7](#)), the Bank has been supporting BANDESAL on its way to operating fully as a development bank, as in other countries with which the Bank has been working,²⁸ whose objective is to cover financing gaps, particularly for Salvadoran MSMEs. To date, a series of loan

²⁷ Operation [4568/GN-PR](#) forms part of the Bank's experience even through it is in the startup stage.

²⁸ The Bank has sponsored exchanges and technical support with Nacional Financiera in Mexico, Banco de Desarrollo Empresarial of Colombia, and Banco Nacional de Panamá to strengthen BANDESAL in fiduciary areas, guarantees, and operations management system.

operations have been approved that have been significant for BANDESAL and the local productive fabric ([4567/GN-ES](#), [5083/OC-ES](#), [5733/OC-ES](#)). In the early stage, the Bank was the first multilateral institution to approve a credit operation with BANDESAL (3271/OC-ES), which has served to attract more international finance agencies (the World Bank, the Central American Bank for Economic Integration, and the German Reconstruction and Loan Corporation (KfW)) to leverage the Bank's funding as well as the capacity created through its support for execution. In a more mature stage, the Bank has supported financing and technical assistance to create new financing markets, such as financing for energy efficiency and renewable energy ([4567/GN-ES](#)) that developed a method for measuring energy and greenhouse gas savings, leveraging funding from international financial agencies such as the Green Climate Fund, with an impact on more than 200 enterprises, and a reduction in greenhouse gas emissions (tons of CO₂/year 45,593.24) thanks to the intervention. As part of the assistance BANDESAL has been providing (paragraphs 1.7, 1.8, and 1.12), the DNEHM was supported in drafting a bill and in the creation of technical standards deriving from it.²⁹

- 1.16 The support continued during the recession and recovery stages (COVID-19 pandemic), where the Bank approved an operation for US\$200 million in less than four months to safeguard the productive fabric, avoiding the closure of more than 7,000 companies and saving over 20,000 jobs. In addition, through funding and leveraging resources from other financial agencies, the Bank has provided technical support for developing a gender strategy in BANDESAL that has served to develop and place specific products with a gender approach. Through technical assistance resources³⁰ and considering the Bank's new focus on measuring the impact of interventions, BANDESAL's operations monitoring capability has been strengthened. This support from the Bank has helped BANDESAL to establish a new unit for impact measurement to track the operations that it, as a second-tier institution, finances for local IFIs.
- 1.17 **Coordination with IDB Lab, IDB Invest, and other areas of the Bank.** The program includes a proposal on complementarity among the IDB Group, focusing on two relevant subjects: (i) promotion of sustainable initiatives, particularly with a focus on energy efficiency and renewable energy; and (ii) an integral focus on the MSME sector. This combined intervention makes the IDB Group's tools available for El Salvador's productive fabric to maximize its scope and impact through financing and technical support. Through BANDESAL, the program will support MSMEs, some of which benefitted from IDB Lab's technical support in developing energy efficiency and renewable energy projects. Depending on the size of the businesses³¹ (potential for generating savings and emissions reduction), their characteristics, and investment requirements (above US\$1 million), projects can

²⁹ This technical cooperation project was approved in May 2019 with resources from the Green Climate Fund and, among other things, it has supported the preparation and regulation of the Energy Transition Law, which was passed in 2021.

³⁰ One of the objectives of the technical cooperation project (pending processing) is to strengthen the capacity to capture data and information from the IFI beneficiaries of BANDESAL's lines of credit.

³¹ According to preliminary data from the demand analysis ([optional link 6](#)) the program is expected to benefit 70 microenterprises, 330 small businesses, and 50 medium-sized enterprises.

be financed with program funds and complemented by IDB Invest programs³² (larger enterprises) and by other financial institutions with similar lines available in the national financial system. As mentioned in paragraph 1.10, the demand studies were performed jointly with the IDB Group's three windows. The aim was to be able to share information internally and with external financial institutions interested in financing projects of this kind. The tool for measuring savings and reductions in greenhouse gases will be available to the IDB Group's three windows for use in other projects, so they can have a common methodology for measuring the impact of this type of interventions. The idea is to generate a demonstration effect in which a public intervention shoulders the risk of opening up a new market by developing a measurement tool so that subsequently the private sector can leverage the experience. Accordingly, as part of the Bank's technical dialogue with the country, coordination will be established with the authorities in charge of energy policies to share information on the program and sources of available financing. The Bank will also continue providing technical support for a review of the energy savings calculation methodologies as part of the analysis of investment proposals (paragraph 2.8).

- 1.18 **Complementarity with other IDB Group operations.** Limited access to credit remains a significant barrier to growth and development in El Salvador. Factors such as informality, lack of collateral and information asymmetry hinder private financing, particularly for MSMEs and the social housing sector, which has led public development banks to play a key role in mitigating these market failures. In this context, the Bank has supported BANDESAL and the Low-income Housing Fund (FSV) over the last decade in the gradual development of innovative financial instruments such as guarantee funds, social mortgages, and green financing lines (paragraphs 1.13, 1.14, and 1.17) to close financing gaps in the MSME and social housing segments. This operation is part of a package of three new interventions—ES-L1162, ES-L1163, and ES-L1165—to be designed and executed independently, but related to each other, thus maintaining this strategic approach ([optional link 8](#)) by continuing to support BANDESAL and the FSV in developing new financing instruments. This shared approach facilitates a coordinated response to the needs of El Salvador's financial sector, with public development banks as the central axis, maximizing the programmatic impact and, at the same time, making it possible to address sector specificities in each of the interventions, considering that the three interventions: (i) serve different sectors and types of beneficiaries, with different maturity periods in terms of the demand and conditions to meet it (paragraphs 1.22 and 1.24); and (ii) have different execution mechanisms as well as different strategic partners (paragraphs 3.1 and 3.2).
- 1.19 **Strategic alignment.** The program is consistent with the IDB's new Institutional Strategy (CA-631): Transforming for Greater Impact and Scale, and is aligned with the objectives of: (i) addressing climate change through financing for initiatives to curb greenhouse gas emissions through investments that promote energy efficiency and renewable energy, given that according to the [joint methodology of the multilateral development banks for estimating climate finance](#), the operation contains 100% climate financing for mitigation since it finances subloans for

³² IDB Invest currently has lines with two local banks that serve larger companies which require larger financing amounts. The companies with these characteristics identified in the demand study can receive complementary financing from these programs.

investments that contribute to a reduction in greenhouse gases; and (ii) bolstering sustainable regional growth by financing investments for private sector growth in renewable energy and energy efficiency. The program is also aligned with the following areas of the operational areas: (i) gender equality; (ii) institutional capacity, rule of law, and citizen security; (iii) productive development and innovation through the private sector; and (iv) sustainable, resilient, and inclusive infrastructure. The program is aligned with the Growth and Institutions for Social Welfare Sector Strategy ([GN-2587-2](#)), particularly with the component to boost the productivity and growth of MSMEs, and is consistent with: (i) the Support to SMEs and Financial Access/Supervision Sector Framework Document ([GN-2768-7](#)) under the pillar to improve the efficiency and scope of bank credit intermediation for the productive sector; and (ii) and the Gender and Diversity Framework (document [GN-2800-13](#)) by considering financing for women's enterprises and institutional strengthening on this front. The program is aligned with the IDB Group Country Strategy with El Salvador 2021-2024 (document [GN-3046-1](#)), under the strategic objective of facilitating access to financing for MSMEs in the priority area of productive reactivation and restructuring through better access to credit for MSMEs and incorporation of the crosscutting themes of climate change, women's empowerment, and gender equality. The program is also aligned with Employment Action Framework from a Gender Perspective (GN-3057, OP-2289-1) (under the pillar firms and undertakings, Category 1). Lastly, the operation is included in the update to Annex III of the 2024 Operations Program (GN-3207-3).

- 1.20 **Paris Agreement alignment.** This operation has been analyzed using the [Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment](#) and the IDB Group Paris Alignment Implementation Approach ([GN-3142-1](#)). It has been determined that it aligns with the adaptation and mitigation goals of the Paris Agreement, using a simplified analysis with a focus on transactions for operations with financial intermediaries ([optional link 5](#)).

B. Objectives, components, and cost

- 1.21 **Program objectives.** The program's general development objective is to contribute to energy savings and to reducing greenhouse gas emissions in Salvadoran MSMEs. The specific development objective is to provide medium- and long-term financing to support MSMEs in making investments that lead to energy savings and emissions reduction.
- 1.22 **Sole Component. Total: US\$80 million (IDB US\$60 million; local counterpart US\$20 million).** The program will finance subloans through eligible IFIs for investment projects in climate change, energy efficiency, and renewable energy. Investment projects that include technologies that contribute to the reduction of greenhouse gas emissions will be eligible.³³ The subborrowers will receive technical support from BANDESAL's coordination unit to establish baselines that allow energy savings and greenhouse gas emissions reductions to be measured. The maximum for each subloan will be US\$1 million, considering BANDESAL's experience with operation [4567/GN-ES](#), which had projects up to that limit. The

³³ The main technologies include: (i) high-efficiency boilers; (ii) high-efficiency lighting; (iii) high-efficiency electric motors and pumps; (iv) high-efficiency furnaces; (v) solar heating systems; (vi) biogas systems; and (vii) solar photovoltaic generation.

- average subloan is expected to be US\$177,000, based on that same experience.³⁴ The terms can be up to 15 years (average is 7 year) and the interest rate will be agreed upon freely between the IFIs and the subborrowers. The program will mainly support the services, electricity, and manufacturing sectors since they have the greatest potential for energy savings. The program will earmark 21% of its resources to finance subloans for MSMEs owned or led by women (paragraph 1.26).³⁵ For more details on the subloans and subborrowers see paragraphs 3.4, 3.5, and 3.6, as well as the [Credit Regulations \(optional link 4\)](#).
- 1.23 **Program management.** The administrative, auditing, monitoring, and evaluation costs of the program will be covered with BANDESAL's own funds (paragraph 2.8). The staff of the program coordination unit will also be financed by BANDESAL.
- 1.24 **Beneficiaries.** An estimated 450 MSMEs are expected to benefit. The beneficiaries will be: (i) microenterprises, associations, and/or cooperatives that had received technical support (e.g. from IDB Lab, paragraph 1.17); (ii) small enterprises; and (iii) medium-sized enterprises that can obtain complementary financing from other sources to maximize the reach of the operation and the leveraging of private sector resources. These companies can submit projects involving any of the different energy efficiency and renewable energy technologies and may receive technical support in preparing their loan proposals in accordance with local environmental legislation.
- 1.25 **Technical cooperation.** The program will be supported by a technical cooperation project for client support (awaiting processing) of up to US\$150,000 to finance workshops with the private sector (IFIs and equipment suppliers) that offer training in structuring projects, adapting technologies to measure energy savings depending on the type of technology, and creating internal capabilities in BANDESAL. This will form part of the program's sustainability strategy and support the dissemination of results related to access to credit for projects of this kind.
- 1.26 **Gender considerations.** Given the gender gaps identified (paragraph 1.11), the program will incorporate a gender perspective by encouraging women-owned/led MSMEs to participate and will use a minimum of 21% of the subloans for that purpose. This percentage has been calculated using the results, disaggregated by sex, of an energy efficiency program implemented by BANDESAL. In turn, the program will build the institutional capacity of BANDESAL and the IFIs through training to learn about the context of gender gaps, focusing on the gaps in the energy sector. The activities will be financed by [ATN/OC-18918-RG](#). These approaches will facilitate continuing with proactive gender activities while work is being done to raise awareness about financial services offerings.

³⁴ By way of exception and subject to detailed information on the feasibility, impact, and environmental and social safeguards of the program, subloans of up to US\$1.5 million can be considered if the projects have strategic relevance for BANDESAL and high potential for generating energy savings or for impacting the value chain. These subprojects must obtain the IDB's no objection.

³⁵ As a complement, the operation will work on activities for institutional strengthening, using funds from operation [ATN/OC-18918-RG](#), approved in 2021 for US\$350,000 with 42.8% disbursed. The technical cooperation project will support updating the financing strategy with BANDESAL's gender approach, through training for commercial managers, risk officers, and directors in establishing a crosscutting gender approach at the institution.

C. Key results indicators

- 1.27 **Expected results.** The program will have an impact on Salvadoran enterprises, measured as a reduction in greenhouse gas emissions and energy savings associated with the program’s investments. The following results will be measured: (i) leveraging of funds associated with energy efficiency and renewable energy investments; (ii) average terms of the subloans to beneficiaries; and (iii) the loan portfolio. The subloans disbursed to eligible borrowers and to women’s MSMEs will be measured as part of the output.
- 1.28 **Economic feasibility.** As part of the economic assessment, a sensitivity analysis was performed of the critical assumptions, with the goal of calculating the returns from the program under different scenarios. Changes in the following variables will be evaluated: (i) price of energy consumed, which impacts the benefits of energy savings; (ii) price per ton of CO₂, which impacts the benefits from greenhouse gas emissions avoided; and (iii) savings in maintenance costs, which impacts the program’s benefits. The program’s benefits stem from: (i) savings in energy consumption thanks to the efficiency generated by the investments made from the subloans; and (ii) economic impact attributable to the reduction in greenhouse gas emissions, particularly CO₂. This will contribute to an improvement in the impact indicators: “Reduction in CO₂ emissions associated with the program’s investments in energy efficiency and renewable energy projects” and “Energy savings achieved through the investments in energy efficiency and renewable energy leveraged through the program.” The economic analysis is favorable, with an internal rate of return of 15.7% (exceeding the Bank’s threshold of 12%) and a net present value of US\$12.62 million. The sensitivity analysis under the most conservative assumptions gives results that likewise exceed the thresholds for each indicator ([optional link 2](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Origin and use of resources.** The program will involve an investment loan under the Global Credit modality, since it will finance subloans for MSMEs through eligible IFIs. The amount of the loan will be US\$60 million from the Bank’s Ordinary Capital and BANDESAL will provide a local counterpart of US\$20 million. Those funds will either come from the European Investment Bank (EIB) or another financing agency.³⁶

Table 1. Estimated program costs (US\$ millions)

Component	IDB	%
Sole component	60	75
Counterpart	20	25
Total	80	100

³⁶ The EIB has approved a credit operation for US\$20 million (in the ratification process), which can be used as the program’s local counterpart. Independently from the EIB financing, BANDESAL has committed to that counterpart. The IDB does not administer those funds.

- 2.2 **Disbursement plan.** According to the preliminary estimates, the program resources will be committed within 57 months and disbursed within six years, counting from the date the loan contract becomes effective³⁷. This period is justified because new technologies will be financed, whose initial analysis and implementation may require more time.
- 2.3 **Restriction on the pace of disbursements.** Pursuant to document AB-2990, Bank loan disbursements will be subject to the following ceilings: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, in all cases as of the date of loan approval by the Board of Executive Directors. These limits may not be applicable in the extent to which the requisites established in IDB policy relating to limits have been complied with, provided the borrower has been notified in writing.

Table 2. Preliminary estimate of IDB disbursements to BANDESAL (US\$ millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
Sole component (IDB)	9.0	9.0	12.0	14.0	9.0	7.0	60.0
Counterpart (EIB)		5.0	5.0	5.0	5.0		20.0
%	11.0	18.0	21.0	24.0	18.0	8.0	100.0

B. Environmental and social risks

- 2.4 Under the Environmental and Social Policy Framework (GN-2965-23) this operation has been classified as financial intermediation, with a moderate environmental and social risk. The risks of disasters and climate change have been classified as moderate. Based on the results of the environmental and social due diligence review, it can be concluded that most of the subprojects to be financed will have low socioeconomic risk, while some potential projects will have a moderate risk. The program will not finance Category “A” subprojects or projects with substantial or high socioenvironmental risk. The potential environmental and social risks associated with the program will be managed by applying the environmental and social management system (ESMS) ([required link 3](#)), which will be based on compliance with the IDB’s list of exclusions, local legislation, application of BANDESAL’s environmental and social risk analysis system, and additional exclusion and eligibility criteria. The program’s environmental and social requisites constitute the ESMS for the program and will be included in the [Credit Regulations](#).
- 2.5 Under the IDB Group Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules (GN-3062-1), for subprojects that entail financing for solar panels, measures will be established to avoid and mitigate the risk of forced labor, based on compliance with local legislation and international agreements, and will be included in the program’s ESMS ([required link 3](#)).

C. Fiduciary risks

- 2.6 An institutional capacity analysis was performed in the third quarter of 2022 for operation [5733/OC-ES](#), and updated in the third quarter of 2024, which found a

³⁷ The funds will be considered committed as of the dates on which the IFIs and the subborrowers sign the loan contracts.

medium-low fiduciary management risk, since the program will not entail procurement and BANDESAL has gained experience in executing operations [5083/OC-ES](#), [4567/GN-ES](#), [5733/OC-ES](#), and [ATN/GN-17930-ES](#), which have been executed satisfactorily. It is therefore confirmed that BANDESAL continues to have sufficient capacity to perform the financial management and resource administration activities called for in this program.

D. Other risks and key issues

2.7 **Risks identified.** Three medium-high level risks have been identified: (i) sustainability, since if interest rates continue to rise, this may depress MSMEs' demand for financing, which would delay execution; (ii) systems, since if tools for measuring greenhouse gas reductions as a result of the new technologies are not developed before the start of the program, no baseline will be available, which would hinder the monitoring of program performance; and (iii) human resources, since if the workload exceeds the capacity of the coordination unit, which is executing another IDB-supported operation ([4567/GN-ES](#)), it may be unable to devote the resources needed to properly execute the program, which would delay execution. Respectively, these risks will be mitigated by: (i) continual monitoring by BANDESAL, which will allow for gradual adjustments to be made in the case of interest rate hikes,³⁸ for a gradual impact on MSME demand; (ii) review and adaptation of the tool for measuring emissions and savings developed under the preceding operation which will be ready when the proposed program is approved; and (iii) the technical cooperation project (pending processing) to support execution, which will build BANDESAL's capacity with specific outputs, training, and studies, aimed, for example, at business development, monitoring new business lines, and measuring the institution's impact in its role as a development bank.

2.8 **Sustainability.** Program sustainability is based on: (i) the coordination unit will be integrated into BANDESAL's operating structure and financed by it; (ii) apart from the resources for this program, BANDESAL will continue to consolidate the financial market for energy efficiency and renewable energy that was developed under the previous loan ([4567/GN-ES](#)); and (iii) BANDESAL will continue to boost the capacity of eligible IFIs to continue with the adoption and promotion of marketing technologies for financing renewable energy and energy efficiency. Based on the results of the previous loan, the present program is expected to double the funding for this agenda by continuing the line of financing with BANDESAL's own resources. Moreover, drawing on the experience generated by the present program relating to the portfolio of loans for enterprises owned or led by women, BANDESAL will be devoting additional resources to continue promoting this line and reaching more enterprises. In addition, the technical cooperation project mentioned in paragraph 1.25 will be processed. Technical support will also be provided to review the calculation methods, as mentioned in paragraph 1.17.

³⁸ BANDESAL will use the interest rate determination policy for lending operations, which allows for quarterly revisions in cases of increases or decreases in debit interest rates that modify the lending rates. In the event of a decrease in BANDESAL's lending rates, IFIs will pass that decrease on to the MSMEs. BANDESAL will be responsible for such monitoring and will report to the Bank as part of the semiannual reports or, as the case may be, previously as requested by the Bank ([optional link 4](#)).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** BANDESAL will be the borrower and executing agency, and the guarantor will be the Republic of El Salvador. BANDESAL is an autonomous public credit institution, with an unlimited term, and its own legal status and assets. It was created through Legislative Decree 847 of 22 September 2011, which contains BANDESAL's by-laws. BANDESAL's assets at the close of December 2023 amounted to US\$748 million, financed by US\$459 million in liabilities and US\$288 million in equity. Its loan portfolio, net of loan provisioning, was US\$708 million as of the same date, with 65% in second-tier operations through IFIs (including FIDEMYPE³⁹ and FIDEAGUA⁴⁰) and just 35% in first-tier operations. Earnings from January to December 2023 were US\$8.8 million, for a return on assets of 1.21% and a return on equity of 3.11%. BANDESAL is supervised by the Financial System Superintendency (SSF) and complies with the Central Reserve Bank's regulations. Moody's Investor Service confirmed BANDESAL's rating of Caa3 as of June 2023, and the rating agency SCRiesgo confirmed its rating of BANDESAL as EAA+ stable as of December 2023.
- 3.2 **Execution and administration.** BANDESAL will execute the program through a coordination unit comprised of five members: a coordinator, three credit executives, and an environmental and social specialist. The activities for which it is responsible include: (i) preparing, implementing, and coordinating the annual work plans; (ii) monitoring budgets, program accounting, financial administration, reporting, and disbursement requests; (iii) preparing technical, execution, and financial reports; (iv) monitoring and evaluating the program; (v) evaluating program results at the end of the disbursement period; (vi) tracking the external auditor's contract and implementing its recommendations; and (vii) acting as the program's contact point with the IDB. BANDESAL will use its experience and capacity to identify the end beneficiaries and issue loans. It will contract the audits and produce the reports envisaged in the program, up to the highest standards of transparency, in keeping with the guidelines established in the [Credit Regulations](#). BANDESAL's fund manager will be responsible for coordinating the necessary arrangements to support the institution's different management offices. BANDESAL has interagency partnerships that supported the execution of the previous program. Since this is a new financing market in the country, partnerships have been keys to reducing loan approval costs (through coordinated work among the IFIs and suppliers), and facilitating permits in the case of co-generation (excess energy that is sold to the public grid).
- 3.3 **Credit Regulations.** The [Credit Regulations](#) will lay out the program's terms and conditions, including the specific characteristics of the subloans to MSMEs, limitations on the use of loan proceeds, application of the program's ESMS, which includes the list of exclusions, socioenvironmental monitoring, fiduciary obligations, and the monitoring and evaluation requirements ([required link 2](#)).

³⁹ Fideicomiso para el Desarrollo de la Micro y Pequeña Empresa (Micro and Small Enterprise Development Trust).

⁴⁰ Fideicomiso para la Seguridad del Agua (Water Security Trust).

Changes to the [Credit Regulations](#) will require obtaining the Bank's approval and/or no objection.

- 3.4 **Eligible subloans.** Subloans to finance investments in energy efficiency and renewable energy that generate energy savings and contribute to reducing greenhouse gas emissions presented by MSMEs in all sectors of the economy will be eligible. The projects may finance the technologies described in paragraph 1.22 (see the [Credit Regulations](#) for more details).
- 3.5 **Eligible IFIs.** IFIs subject to inspection and supervision by the SSF and unregulated IFIs that comply with the conditions established in BANDESAL's risk management system and have current lines of credit with BANDESAL will be eligible. BANDESAL's system for assessing eligibility is established in the institutional credit policies approved by its board of directors⁴¹ and reviewed by the SSF which, in turn, takes a risk-based approach described in the [Credit Regulations](#).
- 3.6 **Eligible subborrowers.** Salvadoran MSMEs that comply with the following requisites will be eligible: (i) be creditworthy; and (ii) comply with the credit requirements of the eligible IFIs.
- 3.7 **Special contractual condition precedent to the first disbursement of the loan: approval of the Credit Regulations ([optional link 4](#)) by BANDESAL in the terms agreed upon in advance with the Bank, which will include socioenvironmental considerations ([required link 3](#)).** This condition is justified, given that the [Credit Regulations](#) will include detailed guidelines to be adopted in the program's Sole Component, the socioenvironmental conditions as established in the environmental and social review summary ([required link 3](#)).
- 3.8 **Exception to Bank policy.** The Board of Executive Directors is asked to approve a partial exception to the Bank's Policy on Guarantees Required from the Borrower (OP-303) to allow the Republic of El Salvador to guarantee only the financial obligations stemming from the loan contract between the Bank and BANDESAL. The request is justified since, according to the Salvadoran authorities, Article 11 of the Financial Administration Act establishes that obligations associated with loan execution lie outside the legal mandate of the Republic of El Salvador. Similar waivers were granted for operations [4977/OC-ES](#), [4567/GN-ES](#), [5083/OC-ES](#) and [5733/OC-ES](#).
- 3.9 **Disbursements and substantiation of advances.** The loan will be disbursed in the form of advances of funds. Their frequency is determined by the financial programming for a six-month period according to the Financial Management Guidelines for IDB-financed Projects (document GN-2811-1). The Bank may make a new advance when at least 80% of the total cumulative balance disbursed has been substantiated. Disbursement requests must be accompanied by a financial plan, duly supported as required in the [Credit Regulations](#). BANDESAL will prepare the disbursement programming annually which should cover a moving horizon of at least 12 months, which will be used to formulate disbursements for six-month periods.

⁴¹ Idem.

- 3.10 **Retroactive financing.** The Bank may use the loan proceeds to retroactively finance subloans disbursed through IFIs to eligible subborrowers prior to the date of approval of the loan for up to US\$6 million (10% of the Bank financing) provided requirements substantially similar to those established in the loan contract have been met. The subloans will have been made on or after the date of approval of the project profile (16 July 2024), but under no circumstances will expenditures incurred more than 18 months prior to approval of the loan be recognized. This possibility is suggested since BANDESAL already has a preidentified pipeline of projects (paragraph 1.10).
- 3.11 **Financial statements and audits.** The program's financial statements will be audited following procedures agreed on beforehand with the Bank. The executing agency will submit the financial statements, duly audited by a firm of independent auditors acceptable to the Bank, within 120 days after the close of each of the program's fiscal years and 120 days after the date on which the final disbursement was substantiated, during the original loan period or any extensions thereof ([required link 2](#)).

B. Summary of arrangements for monitoring results

- 3.12 **Monitoring.** Program execution will be monitored through semiannual progress monitoring reports by the executing agency, submitted within 60 days after the end of each six-month period during the disbursement period. The reports will be based on the information commitments appearing in the Results Matrix and the financial progress reports indicated in the General Conditions of the loan contract, and on compliance with the eligibility criteria established in the [Credit Regulations](#). These reports will be reflected in the progress monitoring reports ([required link 2](#)). The progress monitoring reports will provide the details of the concessionality transfer in the term of the resources to the IFIs and these, in turn, to the end beneficiaries. These reports will also contain information on the interest rate reductions for IFIs and end beneficiaries as warranted.
- 3.13 **Evaluation.** The strategy for evaluating the program's results, which will include a midterm evaluation when 50% of the loan has been disbursed and a final evaluation at the close, will focus on several aspects: (i) an ex post cost-benefit analysis of the flows of benefits and costs deriving from the program, following a strategy similar to the one used for the ex ante cost-benefit analysis; and (ii) a qualitative analysis, which will be included in the project completion report and will seek to respond to and/or justify the main weaknesses and challenges encountered in program execution, the measures applied to remedy the execution weaknesses and challenges, the design of the operation to address the specific nature of the problem, and the lessons learned and proposals arising from program execution. Evaluation strategy details are presented in the monitoring and evaluation plan ([required link 2](#)). The evaluation and monitoring costs will be assumed by the executing agency. BANDESAL will submit the midterm evaluation report and the final evaluation report to the Bank within 90 days after the completion of each evaluation.
- 3.14 **Information for program monitoring and evaluation.** The executing agency will be responsible for maintaining data collection and follow-up systems. It will undertake to maintain a monitoring and evaluation management system for the Sole Component, which will be the basis for preparing the reports and information it will remit to the Bank. For evaluation purposes, the executing agency will

compile, store, and retain all the information, indicators and parameters, including the annual work plans and the final evaluation of results, needed to prepare a project completion report. Any additional information needed for the evaluation will be taken from secondary national and international statistical sources and potentially from reports by relevant organizations ([required link 2](#)).

Development Effectiveness Matrix		
Summary		ES-L1162
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	<ul style="list-style-type: none"> -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure -Productive development and innovation through the private sector 	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3046-1	Facilitate access to finance for MSMEs
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		8.8
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		4.8
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		FI
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Contracting Individual Consultant.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Assessment Note:

The operation ES-L1162 (Financing Program for Energy Efficiency and Renewable Energy for Salvadorean MSMEs), structured as a US\$80 million Global Credit Program (of which US\$60m from the IDB, and US\$20m from a local counterparty), has a general objective of contributing to energy savings and the reduction of GHG emissions of MSMEs in El Salvador. The specific development objective of the program is to provide medium and long-term financing, enabling MSME investments that yield energy savings and reductions in emissions. The project has a single component, which consists of the provision of financing – via BANDESAL and eligible first-tier financial institutions – to MSMEs for investment in technologies which contribute to the reduction in GHG emissions; a portion of funds are intended specifically for women-owned or led MSMEs.

While El Salvador's contribution to overall global emissions is low, the emissions level is high compared to similar countries and has been increasing in recent years due to a high dependence on fossil fuels for energy generation. As a result, energy efficiency measures have significant potential for GHG reduction; among firms in particular, energy consumption represents a significant portion business costs. However, investment in energy-saving technologies is limited, especially among MSMEs, due to these technologies' higher upfront costs and lack of medium or long term funding, necessary given the payback period for those types of investments. Access to such funding is constrained for MSMEs given that private financial institutions often perceive investments in energy efficiency as risky, as well as due to MSMEs' lack of collateral. The diagnostic estimates the size of the overall financing gap for MSMEs in El Salvador at US\$10 billion, with significant demand from energy efficiency and renewable energy projects in need of financing.

The project's vertical logic is sound, and the Results Matrix includes indicators appropriate for measuring the achievement of the specific and general objectives. The economic analysis includes all relevant benefits and costs, and is based on assumptions that are reasonable and evidence-based; the NPV of the project is positive in the central scenario as well as under a range of alternative scenarios. The Monitoring and Evaluation plan satisfies the requirements for this type of project. No impact evaluation is planned for the project; instead, the project will be assessed at closure using methodologies (ex-post cost benefit analysis, qualitative analysis) which preclude the attribution of results.

RESULTS MATRIX

Program objective:	The specific development objective is to provide medium- and long-term financing to support MSMEs in making investments that lead to energy savings and emissions reduction. The general development objective is to contribute to energy savings and to reducing greenhouse gas emissions in Salvadoran MSMEs.
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GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	End of program	Means of verification	Comments
General development objective: To contribute to energy savings and to reducing greenhouse gas emissions in Salvadoran MSMEs						
Indicator 1: Reduction de CO ₂ emissions associated with program investments in energy efficiency and renewable energy	Thousands of tons of CO ₂	0	2023	78	BANDESAL information system	<p>The target is based on the target for program 4567/GN-ES which was estimated using the methodology and tools developed.</p> <p>Because the amount of new financing will increase from US\$40 million to US\$80 million, the value of the target will likely grow, since a correlation exists.</p> <p>The methodology for estimating annual reductions in tons of CO₂ considers criteria for segmenting MSMEs, technical aspects of the different technologies, average size of loans that obtain program financing, and average savings per type of technological equipment, multiplied by the national emissions factor. Verification of energy savings uses a methodology that considers international standards and entails estimates based on the technical features of the new equipment installed.</p>
Indicator 2: Energy savings achieved through the investments in energy efficiency and renewable energy leveraged by the program	GWh/year	0	2023	116	BANDESAL information system	<p>The target is based on the target for program 4567/GN-ES, which was estimated using the methodology and tools developed.</p> <p>Because the amount of new financing will increase from US\$40 million to US\$80 million, the value of the target will likely grow, since a correlation exists.</p> <p>This indicator estimates energy savings in new energy efficiency and renewable energy projects that obtain loans under the program. Indicators related to energy input and output were estimated using standard internationally accepted methodologies. Energy savings will be obtained by comparing the ex ante baselines provided by the MSMEs and the energy results determined in the validations.</p>

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
Specific development objective: To provide medium- and long-term financing to support MSMEs in making investments that lead to energy savings and emissions reductions						
Indicator 1: Total investment mobilized by the financing program	US\$ millions	0	2023	100	BANDESAL information system	<p>The baseline is 0 because the indicator measures investment mobilization under the program.</p> <p>The target was calculated using the amounts issued under the energy efficiency line (including rediscounts and advances), because this base includes a field for the “project total.”</p> <p>The survey of IFIs was updated, which confirms that leveraging levels range from 15% for medium-sized companies, to 12% for small companies, and to 0% for microenterprises.</p> <p>The database for lending under the new operation will be considered in the calculation because it includes a field for the “project total.”</p>
Indicator 2: Average term of the loans to end beneficiaries for energy efficiency and renewable energy	Years	4.5	2023	6	BANDESAL information system	<p>The baseline was calculated using the current term for BANDESAL’s relevant portfolio for energy efficiency and renewable energy.</p> <p>The value of the target will likely grow thanks to sensitization about this type of financing that seeks to promote medium- and long-term investments.</p> <p>This indicator measures the average term of loans issued by IFIs with total funds from BANDESAL. The baseline is 4.5 years given that BANDESAL currently has a credit line for energy efficiency.</p>
Indicator 3: BANDESAL’s portfolio of loans to finance energy efficiency and renewable energy	US\$ millions	40	2024	120	BANDESAL information system	<p>The baseline was calculated using the target for program 4567/GN-ES.</p> <p>The value of the target will likely grow, since the financing for the new loan portfolio will be added to program 4567/GN-ES.</p> <p>This indicator measures the historical loans that BANDESAL used to generate a loan portfolio devoted to energy efficiency and renewable energy. The program will strengthen BANDESAL’s specific line of financing for energy efficiency and renewable energy.</p>

Indicator	Unit of measure	Baseline value	Baseline year	End of project	Means of verification	Comments
<p>Indicator 4: Percentage of program resources for financing energy efficiency and renewable energy that go to women-owned or led MSMEs</p>	%	0	2024	21%	BANDESAL information system	<p>Pro-gender indicator</p> <p>For legal entities, women’s enterprises fall into one of the following categories, consistent with BANDESAL’s gender policy: (i) at least 51% of the share capital is owned by one or more women; (ii) at least 20% of the property belongs to one or more women, a woman holds the position of general manager or equivalent, and at least 30% of the board of directors, if any, consists of women; and (iii) the legal representative is a woman. For natural persons, the sex of the person who receives the loan will be counted.</p> <p>The target will be calculated using as a reference information on results, broken down by sex, taken from a previous energy efficiency program executed by BANDESAL. The baseline is 0 because this is a new program to be measured.</p>

OUTPUTS

Output	Unit of measure	Baseline value	Baseline year	Year1	Year2	Year3	Year4	Year5	Year 6	End of program	Means of verification	Comments
Sole component: Total: US\$80 million (IDB US\$60 million; Local counterpart US\$20 million)												
Output 1: ¹ Funds assigned to eligible beneficiaries under the program's line of credit	US\$ million	0	2024	9	9	13	14	10	8.2	63.2	BANDESAL information system	This indicator measures the funds assigned by the program to eligible beneficiaries per year. The indicator for amounts issued on the output level is used because demand should be promoted among MSMEs to absorb those funds.
Output 2: Loans issued to women-owned or led MSMEs with program support	US\$ million	0	2024	1.0	1.0	3.0	5.0	4.0	2.8	16.8		Pro-gender indicator Loans issued to women-owned or led MSMEs with program support. The amounts are equivalent to 21% of the program's Sole Component, in line with the available information on results, broken down by sex, from an earlier BANDESAL-executed energy efficiency program.

¹ This output does not include funds allocated for women-led or owned MSMEs.

Country: El Salvador

Division: CMF

Operation No.: ES-L1162

Year: 2024

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Banco de Desarrollo de la República de El Salvador (BANDESAL)
(Development Bank of the Republic of El Salvador)

Operation name: Financing Program for Energy Efficiency and Renewable Energies in Salvadoran MSMEs

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation¹

◆ Budget	◆ Reports	◆ Information systems	● National Competitive Bidding (NCB)
◆ Treasury	◆ Internal audit	● Shopping	● Others
◆ Accounting	◆ External control	◆ Individual consultants	

2. Fiduciary execution mechanism

◆	Special features of fiduciary execution	<p>The program is structured as a Global Credit loan under which financing will be given to BANDESAL to rediscount eligible operations by IFIs that lend these funds to natural or legal persons who are undertaking activities compatible with the Credit Regulations.</p> <p>The program will have a coordination unit consisting of five people: a coordinator, three credit executives, and one environmental and social specialist for program execution. The activities for which it is responsible include: (i) preparing, implementing, and coordinating the annual work plans; (ii) monitoring budgets, program accounting, financial administration, reporting, and disbursement requests; (iii) preparing technical, execution, and financial reports; (iv) program monitoring and evaluation; (v) evaluating program results at the end of the disbursement period; (vi) monitoring the hiring process of the external auditor and implementing its recommendations; and (vii) acting as the program's contact point with the IDB. BANDESAL will use its experience and capacity to identify the end beneficiaries and issue loans. It will contract the audits and produce the reports envisaged in the program with the highest standards of transparency.</p>
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¹ Any system or subsystem approved subsequently may be used for the operation, pursuant to the terms of the Bank's validation.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The simplified assessment of the executing agency's fiduciary capacity confirmed that BANDESAL has the requisite capacity to carry out the financial management and administration of this operation. BANDESAL is currently executing operations 5733/OC-ES and 4567/OC-ES , with satisfactory performance in both cases. Moreover, BANDESAL has satisfactorily concluded the execution of loan 5083/OC-ES in 2023.
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4. Policies and guidelines applicable to the operation: Paragraph 3.13 “Procurement in Loans to Financial Intermediaries” of document GN-2349-15, Policies for the Procurement of Works and Goods Financed by the IDB, which establishes that in this type of loan, current private sector or commercial practices apply to contracts made by the beneficiaries. Since this is a demand-based program with a Sole Component, no procurement or works, goods, services, or consulting services are called for in its execution. Accordingly, the proposal does not include a procurement plan. As for financial management, the following will apply: the Financial Management Guidelines for IDB-financed Projects (OP-273-12); the Audited Financial Reports and External Audit Management Handbook; and the Disbursement Handbook.
5. Exceptions to policies and guidelines: None.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

<p>Exchange rate: For the purposes stipulated in Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate will be the rate mentioned in section (b)(ii) of that article. To that end, the exchange rate will be the rate in effect on the date on which the borrower, the executing agency, or any other person or legal entity empowered to incur expenditures makes payments to a contractor, supplier, or beneficiary.</p>
<p>Type of audit: During the program, audited annual financial statements will be submitted no later than 120 days after the close of each fiscal period. The program's external audits will be conducted by an external firm acceptable to the Bank. The final audited financial statements will be submitted no later than 120 days after the last disbursement.</p>

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

◆	Projects with financial intermediaries	Since this is a loan for Global Credit programs and other operations in which funds are lent to financial intermediaries to onlend as subloans or some other type of subfinancing, contracts between the executing agency, its financial intermediaries, and its end beneficiaries should include the Bank's clauses on prohibited practices. Should it not be possible or practical given the project's circumstances to include those clauses in the contracts, the project team may study other mechanisms for adopting acceptable controls and duly bind the pertinent third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, and will be supported by the Bank's Legal Department and included in the Credit Regulations .
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◆	Retroactive financing	The Bank may use the loan proceeds to retroactively finance subloans disbursed through IFIs to eligible subborrowers prior to the date of approval of the loan for up to US\$6 million (10% of the Bank financing) provided requirements substantially similar to those established in the loan contract have been met. The subloans will have been made on or after the date of approval of the project profile (16 July 2024), but under no circumstances will expenditures incurred more than 18 months prior to approval of the loan be recognized. This possibility is suggested since BANDESAL already has a preidentified pipeline of projects.
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IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

◆	Programming and budget	<p>BANDESAL will manage the program's budget, applying the mechanisms and procedures used for its own budget, which is prepared annually for the fiscal financial year that begins on 1 January and ends on 31 December. The budget will be submitted first to its board of directors and subsequently to its board of governors.</p> <p>A specific line of credit will be established for the program to permit control and monitoring of conditions, allocation of quotas, and amounts available in the Banca 2000 system, which will be fed with information from the approved budget and will integrate the accounting records with treasury operations.</p>
◆	Treasury and disbursement management	<p>The IDB will disburse the proceeds mainly as advances of funds. Reimbursements may be used in the event they are required by BANDESAL. Disbursement requests should be accompanied by a list of eligible rediscounted subloans as established in the Credit Regulations.</p> <p>BANDESAL will prepare a program of disbursements annually that should cover a moving horizon of at least 12 months. The executing agency will open a current account in the Banco Central de Reserva exclusively for the receipt and management of the funds from operation ES-L1162.</p>
◆	Accounting, information systems, and reporting	BANDESAL will be responsible for program accounting, which it will perform using its own accounting system that integrates accounting and treasury operations through the Banca 2000 system and uses information from the approved budget as a reference. Movements under the program will be incorporated into BANDESAL's financial statements in specifically assigned accounts. To prepare its financial statements, BANDESAL uses accounting standards accepted in the Republic of El Salvador and the regulations issued by the Financial System Superintendency.
◆	Internal control and internal audit	BANDESAL applies specific technical control standards based on the applicable legislation and the internal and external standards applicable to it and to funds it administers, based on the global standard of Committee of Sponsoring Organizations of the Treadway Commission (COSO).

		It has an auditing and control office, and a compliance officer who report directly to its board of directors. It also has an audit committee that supervises the effective operation and independence of the internal audit function and monitors to ensure that the comments made by the internal and external auditors and the Financial System Superintendency are acted on correctly and expeditiously.
◆	External control and financial reports	<p>The program's external control will be performed by an independent firm of external auditors acceptable to the Bank. The external auditors may be the same firm that audits BANDESAL's financial statements, provided it is considered eligible by the Bank.</p> <p>The terms of reference will require the IDB's no objection. In the event competitive bidding is held, the provisions of the IDB's Audited Financial Reports and External Audit Management Handbook will be followed.</p>
◆	Financial supervision of the operation	The program requires ex post financial supervision of disbursements, the inputs of which will come mainly from the audited financial statements. Complementarily, the Bank will conduct at least one financial supervision visit to the executing agency annually.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

El Salvador. Loan ____/OC-ES to Banco de Desarrollo de la República de El Salvador (BANDESAL). Financing Program for Energy Efficiency and Renewable Energies In Salvadoran MSMEs

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Banco de Desarrollo de la República de El Salvador (BANDESAL), as borrower, and with the Republic of El Salvador, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Financing Program for Energy Efficiency and Renewable Energies in Salvadoran MSMEs. Such financing will be for the amount of up to US\$60.000.000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2024)